

California. Legislature. Assembly. Committee on Efficiency and Cost Control.

A REVIEW OF PROGRAM BUDGETING IN CALIFORNIA.

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A REVIEW OF PROGRAM BUDGETING IN CALIFORNIA PART I

California Legislature Assembly

HEARING
BEFORE THE
COMMITTEE ON
EFFICIENCY
AND
COST CONTROL



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STATEMENT OF PURPOSE

The Assembly Committee on Efficiency and Cost Control shall exercise general legislative oversight in order to determine the extent to which programs, policies and actions of government fall within and adhere to the expressed intent of the Legislature, including but not limited to the:

- I. Determination of programs which duplicate or overlap other programs in existence; the
- II. Determination of programs which no longer fulfill an intended or necessary need; the
- III. Determination of agencies which are conducting programs or functions not within the intent of the Legislature; and the
- IV. Determination of agencies failing to conduct programs or functions intended by the Legislature.



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LETTER OF TRANSMITTAL

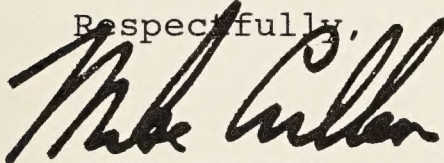
State Capitol
Sacramento, California
October 20, 1971

The Honorable Robert Moretti
Speaker of the California Assembly
State Capitol
Sacramento, California 95814

Dear Mr. Speaker:

Your Committee on Efficiency and Cost Control hereby
transmits its first hearing record on the subject of
Program Budgeting in California.

Respectfully,



MIKE CULLEN
Chairman

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Tuesday, September 14, 1971

The Committee met at 1:45 p.m. in Room 6028, State Capitol, Chairman Cullen presiding.

Present: Assemblymen Mike Cullen, Ernest Mobley, Peter Schabarum, Raymond Seeley, and Vincent Thomas.

Staff Present: John W. Billett, Senior Consultant and Jan Sharpless, Associate Consultant.

CHAIRMAN CULLEN: The meeting will come to order. With the members present we will proceed.

Two years ago when the 1969-70 Budget was presented, the Director of Finance said that "this is the first program budget for all State Government activities. As you know, we are presenting a program budget to you, more than two years ahead of the original schedule. We decided to advance this timetable because I am convinced this program budgeting will give us additional management tools of great value in measuring the effectiveness of various programs and in helping us to allocate the limited financial resources of State Government to the most pressing needs."

Since that time little has been known in the Legislature about the specific progress which has been made in developing the Programming and Budgeting System.

This afternoon we have asked representatives of the Department of Finance to appear so they might bring this Committee up to date on the history and current status of program budgeting. The subject will be one of continuing interest to this Committee and we anticipate

that other hearings will be held. I might add that four years ago the Joint Legislative Audit Committee devoted three or four pages of its annual report to the facets of program budgeting and concluded by recommending that it be pursued diligently.

Mr. James Dwight, Chief Deputy Director of the Department of Finance, is here to begin the presentation. I will ask him to come forward with his staff people and to identify them for the benefit of the reporter.

APPEARANCE OF MR. JAMES DWIGHT, CHIEF DEPUTY DIRECTOR,
DEPARTMENT OF FINANCE.

MR. JAMES DWIGHT: Chairman Cullen, Members of the Committee, I want to first -- I guess for the record I should introduce myself. I am James Dwight, Chief Deputy Director of the Department of Finance, and here with me at the table is Edwin Beach, the Chief of the Budget Division and Matthias McDonald, who is the Special Assistant to the Director.

The Director asked me to express his appreciation to you for the opportunity of providing testimony to the Committee on the subject of program budgeting or PPBS as it is more affectionately referred to. What I would like to do, if this meets with the needs of the Committee, is to first address ourselves to an overview of what has happened in terms of significant events, not necessarily chronologically but as they relate to where we are today in the use of the system. Secondly, to review for the Committee the chronology of events which are significant from a sequential point of view and then thirdly, to address ourselves to what we feel is the next logical step and that is the sophistication and evaluation as it relates to the use of this as a budgeting system.

Really, we create somewhat of a dishonor when we talk about program budgeting or PPBS as a singular system. It is really three separate systems which interrelate and are coordinated. Ultimately it is a planning, budgeting, and an evaluation system or systems, which can be used separately or together. Obviously they work best when they are together and the emphasis to date has been almost solely on the budgeting aspects of it and as I said a moment ago we will address ourselves to the evaluation aspect during the course of our testimony.

Like any innovation, those who advocate it tend to oversell it and I think it is safe to conclude that program budgeting as a concept was oversold both to the Legislature and the Executive when it was initially instituted which goes back to 1963-64. Into that time period, as a normal consideration, both the Legislature and the Executive expected too much too soon. The concept was viewed as the see-all and end-all of systems, supposedly to make the budgetary system simple. I think it is safe to say that the difficult decisions that are implicit in budgeting are never going to be simple; they are always going to be difficult but hopefully they can be more rational and this approach to budgeting is an attempt to make the decision making process both at the Executive and the Legislative level a more rational decision making process.

One of the early decisions that was made was an attempt to avoid the trap that other states that have used the concept have fallen into and that is designing an accounting system which then dictates the budgetary approach rather than determining what the programs are that are to be measured and then to design an accounting

system which will measure those programs. New York made this fatal mistake and as far as I know they have never recovered from it. In other words, their efforts today have been almost a waste. This implicitly carries with it a long term effort, because we found initially, and continue to find, that one of the most difficult things that managers of poor budgetary response have viewed is identifying what programs are as they relate to their own type of operation. And this is difficult to understand, I believe.

We had initially a major training effort, a training effort which in essence paralleled the old line item budgetary approach. And I think one of the major short comings there was was the example used in training the technical people were not readily adaptable to the situations that the technical people found in their own operation and secondly, the management people were not too concerned about the techniques of budgeting. In other words, they were concerned about getting money and people, i.e., the old line item approach, as contrasted to articulating the programs within their various agencies. Therefore, at a time, which was approximately two years ago, about the time of the quote that you made reference to, Chairman Cullen, we abandoned the separate PPBS unit in the Department of Finance which was primarily a training effort, and determined that we would be relying upon the line structure in the Department of Finance interacting a program basis without counter partners in the Departments and in essence cutting the umbilical cord. This is where we walked away from the line item budget. We forced ourselves to make decisions based on programs.

In other words, we ceased to consider the traditional line item kind of things in the process of evaluating and developing

the Governor's budget. We started to talk about programs, shall we continue this program, shall we curtail it, these were the kinds of questions that were being asked and the basis for decision makers. This was for lots of reasons, but basically I think it was because up until that point of time the programming budgeting approach had been somewhat of an academic approach. It was something that had to be done, the departments were required to submit it but nobody used it. The Executive didn't use it, and the Legislature didn't use it, so there is no basis to determine whether we were making any progress. Because there was no way of evaluating the effectiveness of the use of the tool because nobody used it and when you get into the procedures of the budget decision making progress, the mechanism that you use to make decisions is the mechanism that's important.

And I think that problem showed in the early efforts of program budgeting. They were delivered to the Legislature and subsequently even the year that we had a full program budget and a full line item budget we still, that year, used the line item budget to make the decisions and then replaced the end product in a program for Legislature. By placing the program format and the program approach to decision making you force yourself to fish or cut bait. It either works or it doesn't work and I think that, by and large, we found that the very tough decisions that they have had to make in the last two years have been substantially improved and facilitated by using the program approach. In other words, we've known more about the implications of the decisions made than we would have otherwise.

I think that that move was probably the most significant achievement or decision which has been made in this evolution for the State

of California into the use of the program budget as a management tool. I think it is significant for some of the reasons that I have already stated and that is namely that it forced the management of the State, the Department heads, the Governor, and the Legislature, to give consideration to the State's financing needs in relation to programs.

Now, I think I have to say that we are by no means proficient in describing programs as yet. We could have academic arguments about whether the way in which we have described programs for particular agencies are, in fact, meaningful descriptions of program, but it's the state as it is in California today and it will be constantly improved. It is to the advantage of all concerned, the Department of Finance, the Governor and the Legislature, to improve in order to facilitate decisions in the articulation of programs in a written form and the dollars which could be said to be used in the decision making process. I might also add that last year in the budget write ups there was a very conscientious effort made to report change in a program format so when we, in the various Departments, as we went through and as we identified change it was identified in a program format. About this same time, say two years or a year and a half ago, it became clear to us that the multi-year program statements were not serving any useful purpose and for most of the reasons that I have already stated about the parallel effort and it relates to the program budgeting itself.

And, that is to say, it was an academic exercise and it ranged from grandiose ideas on the part of some Departmental people as to what they were going to do in the future to the arithmetical approaches by others in terms of what the costs in the future were

going to be of various departmental efforts.

There was a considerable amount of work going into the development of these statements and they were being put into use. We didn't have the capacity within the Department of Finance to evaluate and critique them and as a consequence there hasn't been much activity in terms of the use of these statements; although I would say that at any point in time using the estimating tools both on the revenue and the expenditure side we in Finance are in a fairly good position of knowing where the State is going, given the constraints of dollars available and this sort of thing.

I think that covers one point, and then we will go on to the other gentlemen who plan to give us testimony.

Output measures seem to be the most logical next step in terms of developing the capacity to evaluate effectiveness. These are tangible measures although they again use describing programs descriptions. The real outputs of Departmental efforts is going to be no small task because we are talking about the whole cycle all over again, training people to think in these terms. But I think we have learned a lesson and that is that we can't live in Never Never Land, we have to get right down to the nitty gritty of a particular Department and a particular Department's needs and programs. We can't talk about the classic kinds of program output measures, and, therefore, we are going to learn by doing. We are not going to learn in the academic mode of pulling people out and sending them to classes and this sort of thing. It's going to be a trial by experience, development by experience mode and with that I think I will turn back to Ed Beach, who, is I guess, the grandfather of program budgeting in California. He has been involved

in it from the point in time when it was first a thought, has been intimately involved in its development and continues to be. He will lay out for the Committee some history which will probably make my comments a little more relevant and then we will go to Mr. McDonald who will try to look into the future for us.

CHAIRMAN CULLEN: Mr. Beach.

APPEARANCE OF MR. EDWIN W. BEACH, CHIEF OF THE BUDGET DIVISION, DEPARTMENT OF FINANCE.

MR. EDWIN BEACH: Thank you. As Jim indicated the concept is not a new one, it is the application and how it is put into perspective. In going back for the history to present to you, one might be shocked to find that in 1958 there is a written management memorandum to the budget staff which says that in order to better inform the Department of Finance, the Legislative Analyst, the Governor, and the Legislature, it was important to start to review the program performance and the results and to indicate the budget in this type of format. Now in 1960-61, for the first time we actually printed in the document the Department of Water Resources as the initial budget on the program format. This was innovative; it was the first time it was tried in any major state, and probably represents the initial forerunner of the submission of any type of budget in a program form at the State level.

In July of 1964, there were selected departments picked to work on sample program budgets.

In 1965-66, we printed 18 departments in a sample program budget format. We included in addition to that, three budgets in regular traditional budgets in format form.

In June of 1966, a memorandum went out to all departments to

develop their programs in program format and program statements. This was under Governor Brown, who personally signed the letter and sent it to all State Departments stating that they should start on this course. Later that month the management memorandum No. 6614 together with 16 and 17 were sent to all departments representing the planning, programming and budgeting system, how to develop work load budgets within this program work. A staff was approved by the Legislature to be established within the Budget Division of the Department of Finance, whose sole responsibility was to bring forward a product in this concept which would be useable to the Executive Branch in its day to day management and decision making process and which could be presented to the Legislature for a decision process relating to programs, the relative value of such programs rather than detailed information as to the number of clerks or the number of automobiles that a particular department might have.

In December of 1966, a subsequent and refined memoranda on programming and budgeting system was presented. There were training managers in training sessions Statewide for the adaptation of the PPBS system. One day seminars were conducted with department directors and departmental deputy directors. There was an all out effort at the top level to acquaint the individuals with the potentials and the hoped for results of this type of program.

In July of 1968, Governor Reagan sent a letter to all State agencies on the necessity for continuing the concept and for the development of a training program, again under PPBS. The Director of Finance and the State Personnel Board developed a training plan in 1968 in which approximately 750 of the top executives of the State participated over a period of time to be exposed to this

technique.

In 1969-70, both a program and a traditional budget were printed and presented to the Legislature.

In 1969, October, the Budget Division within the Department of Finance reorganized to put its entire capacity into an organizational structure which gave it flexibility and would allow for better review, better presentation with a maximum of effort being able to be obtained from all of the personnel within the Division.

Incidentally this has proved to have been an excellent move, certainly from the staff viewpoint. We were able to accomplish considerable with a maximum of effort but with a great deal more flexibility, to move in this direction.

In 1970-71, the budget format was slightly changed again. This time we presented a summarized form of budget to the Legislature with supplementary fiscal schedules of support in three separate volumes after the Regular Budget.

In 1971-72, development and presentation in summary form with supplementary detail in the supplements were presented.

The 1970-71 was one separate, 1971-72 had the three supplements in it. The presentation of the Budget at the present time will be along the same lines as presented to you for the current year 1971-72 which will be a Summary Budget, useable and hopefully carryable in your hands instead of a document that was so heavy it weighted you down on one side with the supplementary information of all the detail being available to you but not having to be carried in the same way to obtain the information.

Now, that is a rather brief chronological effort. In addition to this, California was one of the test states in the national 5-5-5

Project which might be familiar to some of the members or to some of the staff, was headed by Mrs. Selma J. Mushkin under the auspices of George Washington University. I think that again covers our--

CHAIRMAN CULLEN: Would you elaborate on that last program, Mr. Beach.

MR. BEACH: Yes, excuse me. The 5-5-5 Project was a national project that was funded by the Federal Government under the auspices of George Washington University. We had within it five states, five counties, and five large urban areas. It was an outgrowth of PPBS at the Federal level. It was intended to show the Nation that everything could immediately move into this suddenly discorded new concept and apply the knowledge immediately. I believe that the 5-5-5 Project was successful in at least two ways.

One, it demonstrated that a change in government takes time. That to expect people to immediately absorb and embrace a concept that is different than the one which they feel comfortable with is not always easy. It also showed that the potential was there, and that if people were willing to work within the framework of the necessity of time acceptance, that the future would be very rosy for this type of an approach.

CHAIRMAN CULLEN: You mentioned the supplemental volumes of this year's Budget, were they set forth in program format or did they drift back toward the line item format?

MR. BEACH: The supplements were supplemental to the summary form, they were in program format. They did have line item information contained within them to some small degree. Salary supplements a portion of this which is an example which is a required piece of information listing all positions, classifications, and

the number of people that are authorized within each classification as long as it has to be printed this will also be printed in a line item format because it is the only way you can show the individual position classification.

From a review point of view, however, I would say that the supplements are in program format. They were used by the Legislative Analyst for the analysis and I would say, yes, they are program oriented.

CHAIRMAN CULLEN: It's been suggested to the Committee by the Legislative Analyst that many of your departments do such a fine job of drafting a performance format budget that it results in sharp contrast with other departments who don't even come close. Accepting that as a premise how does your Department encourage the not so good departments to come up to the norm of excellent performance budget formats?

MR. DWIGHT: Mr. Chairman, I think this is a basic question. In other words, you are dealing with individual people who are responsible for the development of these approaches in the various departments and so are much more skilled than others in other instances. The Manager, the Director of the Department, whatever, some directors are more interested in this than others and that reflects on the end product. I think through the review that these are given and the great difficulty that you have in reviewing the poorer efforts as contrasted with the more rational approach that you get when you deal with the better approaches, water will seek its own level, and we constantly identify those who are nonperformers, and we recognize those who are performers within the peer group.

In other words, in the Executive structure of State government,

this is not a fool proof way of addressing the problem, but it is the best one we can see at this point in time and, I think, constant and continuing pressure with the departments that have not grasped the significance of this concept will, over a period of time, bring the bottom up to meet the quality that you see in some of the departments at the present time. But this again is going to take time as Mr. Beach put it, the 5-5-5 Program showed us that we shouldn't expect too much too fast in the sense that it is a new learning experience and some come along faster in that sort of situation than others. And I think that through the joint effort by both the Legislature and the Executive branch we will continue to move this as it has in the past.

CHAIRMAN CULLEN: Last year, I believe I am correct when I state that, both your Department and the Legislature had difficulty reviewing and analyzing the budget presentation of the Department of Education, and I don't recall whether it was your Department or the Legislature or the two of you in conjunction that finally said well we'll just reduce it 20%, which, you know, appeared to be a persuader for future years. But at the time I thought to myself that if an administrator who wasn't interested in full disclosure to the Department of Finance or to the Legislature were to inflate his request by 30% and we come in with a drastic cut of 20% he would still wind up with 10% more than the other departments who had conscientiously attempted to follow the format. Now, if the Legislative Analyst has had difficulty with the program budget of many departments, presumably you have also had difficulty. Now, does this result in their requests being relegated to a lower priority than the requests of those departments that you find it

easy to review and analyze?

MR. DWIGHT: Well I believe that when the Analyst and the Department of Finance have similar problems in reviewing the Department of Education's proposal, although I would be quick to say that last year was a considerable improvement over the past, we still have a long way to go. It's a very important area in terms of the provision of governmental services in California and so we have to be very cautious in terms of how we approach this. The possibility of conflicting numbers in anticipation of a cut is one which I would tend to discount because the developmental process beginning with the base which was in effect the prior year. So unless there must be a continuum of inflation that opportunity is not available to any agency other than a new agency, and you don't have many of those. I think that there is an awareness in the Department of Education that we still got a long ways to go and there seems to be an indication that they are willing to make that effort. And that's not to say that we are going to get it this year by any matter or means.

CHAIRMAN CULLEN: One of the flaws of the line item budget which may contradict your position is that programs authorized years ago remain in the line item budget even though the legislative objectives have long since been achieved. In the department, managers are taking these funds and either asking for an increase or a decrease and shifting them to pet projects of their own which in many instances were not authorized by the Legislature and to respond to your discounting of the statement that the idea of a department manager's inflating their demands, it brings to mind a story that was told to me when I was at the Pentagon some 20 years ago.

The National Security Council or a similar group thought it would be well to know what was needed in the event of full mobilization or, indeed, war, and they asked the Joint Chiefs of Staff to draw up a grocery list of what would be needed in order to defend the country, and they did it. It took several months and when it came in the total came to three times the gross national product of the United States. So based on that experience I would not quickly discount the tendency of a program manager or a department head to advocate as much of the pay as he is able to get by any means available to him.

ASSEMBLYMAN THOMAS: May I ask a question?

CHAIRMAN CULLEN: Mr. Thomas.

ASSEMBLYMAN THOMAS: Is anyone from the Legislative Analyst's office here?

MR. BEACH: They were.

ASSEMBLYMAN THOMAS: Mr. Post sent you?

CHAIRMAN CULLEN: We invited them to attend as an observer. Would you like to ask him a question?

ASSEMBLYMAN THOMAS: No. But I would like to ask a few questions. Two years ago was it Senator Harmer that had a bill on program budgeting that the Department opposed, Mr. Beach?

MR. BEACH: I am not familiar with that.

ASSEMBLYMAN THOMAS: A couple of years ago a bill was sponsored by the Joint Legislative Audit Committee, and we gave it to Senator Harmer, was that a bill you recall?

MR. BEACH: I don't recall it.

MR. DWIGHT: The Committee sponsored it having to do with State College auditing.

ASSEMBLYMAN THOMAS: Yes. But the Department of Finance opposed it viciously. They didn't want anything to do with any sort of program budgeting but I want to ask you what statements have gone into program budgeting that have become successful? Have any of the states gone into it fully? What states are using part of it? Mississippi? Arkansas? Some of the others, I understand--

MR. BEACH: Mr. Thomas I would say that the states that are further along in the conceptual idea of using program information as their base would probably be New York, although they are hung up because of their initial efforts in truly identifying what program is, the State of Wisconsin, the State of Michigan. The latter two probably are further along in total than any of the other states would be.

Now there are some very small states which are making an effort but I believe you would have to discount this type of approach versus a state that has the kind of problems and the number of difficulties that the State of California has and the basic budgets which are reflected in the larger state. I think it is very difficult to try to compare a very very small State, the State of Rhode Island, for example. They believe that they are working on a program oriented budget. Having seen it I am sure they are trying and they will probably be able to do it much faster possibly than the larger states, but I believe that you'll find that Wisconsin, Michigan, are the other two forerunners along with New York and California. Oregon has reviewed it and Washington is moving in this direction.

ASSEMBLYMAN THOMAS: You know as I look back in the Legislature,

the reason we created the Joint Legislative Audit Committee in 1955 was that the Legislature could not follow whether or not the money was expended properly by a department and what programs have succeeded and what part of a program was carried out. We have gone all these years trying to advise the Legislature on the performance of a department and we are having a difficult time going into performance auditing, but we did start with the Department, I mean the Division of Highways. And that was the reason for establishing the Joint Audit Committee, because the Legislature could never get a correct picture of a department. The Director would come before the Ways and Means Committee like Mr. Cullen said and just ask for a sum of money and we couldn't find out how it was spent.

In 1966, the Joint Audit Committee issued a report on program budgeting and highly recommended that we pursue it and because it was a way of utilizing the funds which we had, the best way to utilize and to get the full use of the resources. But nothing has been done and these reports have gone to the Director of Finance. I just wondered, have you had any occasion to read the Joint Audit Committee's report?

MR. BEACH: I have, Mr. Thomas, read them, yes.

ASSEMBLYMAN THOMAS: Have you found it beneficial or was it just making a lot of statements?

MR. BEACH: The report was very beneficial.

CHAIRMAN CULLEN: I think he is trying to say is it consistent with reality from your standpoint, is that correct, Mr. Thomas?

ASSEMBLYMAN THOMAS: That's right.

CHAIRMAN CULLEN: Mr. Beach.

MR. BEACH: I wouldn't quarrel at all with the concepts that

they have. My basic problem, again, is one I mentioned earlier and that is of the realities of timing, not the realities of trying to develop a program budget to present to your people. I am not aware of a major fault as such in the concept of having a program budget but I would project that it takes time in certain cases.

CHAIRMAN CULLEN: Well, by way of example, if I might interrupt just a moment, Water Resources was the first Department to attempt to convert to program budgeting.

MR. BEACH: Right.

CHAIRMAN CULLEN: Are you able to say that at this point in time they are more sophisticated than any other department which started later?

MR. BEACH: Well the Department of Water Resources lent itself in the first instance to the program format more readily than most other departments because at the same time we had the water project going. When you have a definitive program of that type with a specific timetable you can more readily develop a presentation which would allow you to have this benefit. Now, the Department of Water Resources budget was modified extensively for at least six years running after the first one was published. I would say that at this stage it has pretty well shook down.

CHAIRMAN CULLEN: In your opinion is it conceivable that program directors who are unable to document any progress would resist a program budget?

MR. DWIGHT: Is that a safe assumption? I think so.

CHAIRMAN CULLEN: Why?

MR. DWIGHT: I think there is another answer to Assemblyman

Thomas' questions which may be of interest to the Committee, it may not. I know there is one basic disagreement between the staff of the Joint Audit Committee and ourselves, and that is the emphasis in the report. The 1969 report that you made reference to, is primarily, or there is large emphasis in the report towards problems that you develop. In an accounting system everything else will follow.

ASSEMBLYMAN THOMAS: A cost accounting system within your Department?

MR. DWIGHT: Right. And that is something that we differ about. In other words until such time as the programs are well identified we don't feel it is appropriate to make an explicit effort in terms of devising a cost accounting system and basically as an accountant I can make that representation.

There is a tendency in government and business and everything to leave these details to the technicians and if you do so what basically you have is you have the accountants making all the policy decisions and that is not appropriate. The policy making should be exercised by the program planner as the departmental effort. That is where the policy should be exercised in describing what it is that we are trying to measure and that's the point that we have been making about New York. They made the fatal mistake, they went ahead and designed a cost accounting system and they still haven't gotten off dead center as a consequence of that. And we don't want to make that mistake and, I think, that is the point you refer to, Assemblyman Thomas, as where there was a basic disagreement.

ASSEMBLYMAN THOMAS: What is the purpose of program budgeting, tell me. I mean if you put it in effect in all the departments,

what would be the purpose, as you see it?

MR. DWIGHT: From the point of view of the Legislature, or from the point of view of the Department of Finance?

ASSEMBLYMAN THOMAS: From the Legislature's point of view.

MR. DWIGHT: I would tell you the purpose, as being the same and basically that is to articulate, specify what it is that a particular agency is setting about to do, how much money does it cost to do it in terms of people and other resources and the input side and what do you get for that program. In other words, were the services provided to the taxpayer the output? And to start to measure the inputs against the outputs on the basis of cost effectiveness. Now that's the whole thing and basically all we have done to date is to address ourselves to what programs are implemented in a particular departmental organization, and as soon as the Chairman is ready to go ahead and leave this part of the discussion, we will move into the evaluation side. We will attempt to identify for you what we think we can do in terms of measure outputs. In other words, what does the taxpayer get?

ASSEMBLYMAN THOMAS: Now, when the Legislature appropriates all the money and the department says they are going to do certain things, how do we know whether or not those things are accomplished unless you have program budgeting? What do you do?

MR. DWIGHT: I would assume--

ASSEMBLYMAN THOMAS: I mean how does the Legislature carry it out with all of these planning processes that we have?

MR. DWIGHT: By measuring outputs and by simulation, showing that this level of input is going to buy you that level of output and then holding the Department, or whatever the agency is, respon-

sible for providing that level of output and that is the bridge that we haven't crossed yet.

CHAIRMAN CULLEN: What procedures does the Executive Branch have for determining whether or not legislative intent is being carried out or whether legislative objectives have been achieved and the program should be either terminated, phased out, and the personnel attached thereto transferred to other State Departments?

MR. DWIGHT: I think that is a subjective judgement that both the Executive and the Legislature reaches as you get programs better and better delineated as to what the outputs are even though they are not stated.

CHAIRMAN CULLEN: Did you not try to do this in the area of mental health? This is not a loaded question. I recollect that in that area there were terms about desirable staff levels and patient levels and so forth, were there not?

MR. DWIGHT: These were more in terms of measuring the quality of input as opposed to measuring output. I would say that probably the only area in mental health that I would put my finger on that would be indicative of trying to measure output, would be where we are keeping track of the number of patients who are placed in non-institutional environments, for example. In other words, there is a unit in the Department of Social Welfare whose function it is to take mentally retarded children who do not any longer need to be institutionalized and place them in foster homes and so forth, conversely, in the line of the Petris-Short approach to care for the mentally ill where you have day care being the primary emphasis.

The move from State hospital institutional care to local care in line Petris-Short clinics, those were starting to get to the

area of measuring output but I don't think they were there yet.

CHAIRMAN CULLEN: But those procedures in the nomenclature utilized in the dialogue is closely similar to PPBS, is it not?

MR. DWIGHT: We are moving in the direction that PPBS would take us when we start to talk in those terms.

CHAIRMAN CULLEN: And is it correct that you are representing that you are deliberately applying those same procedures to other departments as well?

MR. DWIGHT: Quite. As fast as we can get there.

CHAIRMAN CULLEN: Mr. Schabarum.

ASSEMBLYMAN SCHABARUM: Well I hope it is no secret I am very interested in program budgeting and I'd like to pursue some questions. One, Jim, your definition of program budgeting and two, ask Ed about his comment, namely that it takes time to bring this program to full function. What are the practical problems that constitute a delay in getting a department to one, identify the programs that have been vested in the Department, two, to delineate the people and resources, dollars and capacity, otherwise, that are attributable to that program and, three, the benefits or the results of pursuing that program. What are the practical problems that are confronted?

MR. BEACH: Mr. Schabarum, you will have to appreciate I am speaking now from a staff basis having been on this for quite a few years.

ASSEMBLYMAN SCHABARUM: That is why I want to get the answers from you.

MR. BEACH: A pair of walking shoes is probably a good analogy. Once you have them broken in and they are nice and comfortable you probably wouldn't think of going out fishing or hiking without

wearing your boots that you have already broken in and feel most comfortable in, no bunions, no chance of rubbing the top of your toe or anything. Now if you have a choice of wearing that pair of boots or a brand new pair that aren't broken in you aren't quite sure how your feet are going to feel afterward, you kind of tend to wear the old boots that feel comfortable.

Now this is true of all of us, I believe, to some extent. To ask a person who has been in a particular program field for many years, who feels quite comfortable with the way he has presented and developed his program, to change and give the information in a different way to actually have to say what it is that he believes he is supposed to be doing is sometimes rather difficult. It probably sounds amazing but there are very many areas that until this concept was presented and had been developed honestly had never set down and taken the kind of time that's necessary to evaluate what they thought they should be doing and where they were going. The Legislature didn't ask it, the Executive Branch didn't ask it, and therefore this change was pretty traumatic.

If I can go back to Water Resources, we probably set ourselves back when we first started this in a program format by at least two to three years. For those of you that might remember, the first thing that the Legislature did was to look at one of the programs being conducted by Water Resources that was out in the open for the first time and probably said, "We don't like this and therefore we are going to delete it", which the Legislature did. Now I assure you that the Director of Water Resources was not the most cooperative individual or happy individual at that point in time being used as a guinea pig and having lost a program. The

word didn't take too long to go around and it was a little more of a problem to get people to really want to cooperate in this development, until the Governor stepped in and said this should be done.

Those, I think, are the general kinds of things, Mr. Schabarum, that just are here inherently that you have to take into account when you start to move. Now, in California you have one other very major problem and that's the size, the bulk, the complexity of what the Government of California represents and to try to make this move in all segments at the same time for all of the portions of it, a very large task.

ASSEMBLYMAN SCHABARUM: Well, okay. But let's stipulate that everybody enjoys or feels more comfortable with a known rather than the unknown. Let's stipulate too that in government, certainly a department head is disinclined to put all his marbles on the table so that somebody else less or more objective, depending upon the view, has an opportunity to knit-pick or take away from what he currently enjoys. My observation is that two years ago as a result of the Governor's mandate to his departments that the budget product as it relates to program presentation was better that year than this current year, that is--maybe you disagree.

Again, it seems to me that the Department of Finance who controls the money strings could and does, or should be able to say to each department as you do already to some degree in the budget document, delineate the programs which are the responsibility of the department. It seems to me that that could be pursued further. It seems to me that the allocation of cause and personnel attributable to these programs could be done a lot better and, of course there is very

little cost or benefit or goals that are certainly in the budget or for that matter really discussed as part of the budgetary process, at least in Legislature.

MR. BEACH: I might say, Mr. Schabarum, that the decision was made earlier by the Administration that the development of the program information could only come from the people in that program who had the responsibility for the program. That outside assistance should be rendered and professional help given for stating what their program might be, but that the development of the program itself, the information, what they hoped to accomplish and why they were in existence should come from those who have that responsibility and should not start or be developed by the fiscal art of government, namely the Department of Finance.

There was one state which went out and had the Department of Finance in this 5-5-5 Project actually delineate what all of the programs that were carried on were and this proved most unsatisfactory because they didn't have the expertise, the skill, or approximately the knowledge to state every program within all the departments and the objectives of that program were supposed to carry out.

ASSEMBLYMAN SCHABARUM: We have the expertise in the Department of Finance though to examine the codes and determine what responsibilities have been vested within a particular department, do we not?

MR. BEACH: You have that ability as long as you are staying with the codes. Major areas of activities aren't spelled out that detailed though in the codes and are the result of years of questions of the Legislature and other areas.

ASSEMBLYMAN THOMAS: May I ask one question, because I want

to leave at 3:30. I have another committee meeting.

CHAIRMAN CULLEN: Are you following up on Mr. Schabarum, because I have one sentence here I want to add to Mr. Schabarum's comments. We are advised that with respect to the outside help that is needed by the departments to get them oriented to program budgeting that two years ago the Department of Finance engaged five full time professionals and one clerk, and today you now have two staff members devoting one quarter of their time and one bureau chief devoting from one-half to one-third of his time to the project. Now I understand you are now beefing up your staff but I offer this as a reason for the delay, is that the outside help was markedly reduced during the past two years to where there was little, very little help. Mr. Thomas.

ASSEMBLYMAN THOMAS: If the Department of Finance would direct to the Department, some other Department, to outline a program that they had, would they resist the direction from the Department of Finance because they feel they want to run their own Department?

CHAIRMAN CULLEN: To whom are you directing your question, Mr. Thomas?

ASSEMBLYMAN THOMAS: Mr. Beach. In other words, is there a feeling of autonomy in these departments? Do they feel they want to run the Department as they see fit? I was under the impression that the Department, the Director of Finance has more power than the Governor.

I think it started with Earl Warren's regime that gave the Department of Finance more powers, that you could do anything you wanted with these departments.

CHAIRMAN CULLEN: Mr. Dwight, do you want to respond to that

question?

MR. DWIGHT: Yes. Assemblyman Thomas, I don't think you can generalize about departments as a group. Each department depending on its derivation of authority, statutory, constitutional, etc., is a separate breed of cat. And I think Chairman Cullen brought up early in the discussion the fact that there are various degrees of perfection in the articulation of programs by various departments. And I think that probably those who are most closely affiliated with the Governor are probably the best because the Governor, both the past Governor and the current Governor, have said this is what I want to do and you are my appointed directors and I request you to do this or I order you to do this. We are dealing with a constitutional autonomy or autonomous agency they have the prerogative of ignoring the Governor, or the Director of Finance, or anybody else that they want to so that in order to discuss this it seems to me we'd have to talk about specific agencies and the way in which specific agencies have responded.

We mentioned earlier in the discussion the Department of Education which has had a little trouble getting cranked up in this direction and both the Legislature and the Executive felt it's quite important that they do move in this direction because education primarily secondary education is such an important aspect of state and local government at the present time than it has been in the past and will be in the future, so I specifically haven't answered your question because I don't think there is a specific answer unless we direct ourselves to a specific department.

ASSEMBLYMAN THOMAS: I was under the impression that the Director of Finance in your Department has all of the powers that

you need, that have been delegated to you by the Legislature, the direct expenditure of money to every department and you can control the function in every department. Am I wrong or right?

MR. DWIGHT: I think, generally, you are correct and perhaps we get to the old adage that you can lead a horse to water but you can't make him drink.

ASSEMBLYMAN THOMAS: You can withhold his expenditures.

MR. DWIGHT: That is a strong compulsion to bring, but, on the other hand it hasn't worked in many instances. And perhaps that is because it hasn't been used in a, shall we say, in a ruthless fashion. In other words, it hasn't been used as a huge hammer, and conversely, I would say, that perhaps your assessment of the authorities of the Director of Finance is somewhat over stated in that the authority has been challenged in the courts and in some instances it has been deemed that the--

ASSEMBLYMAN THOMAS: I voted for more bills giving the Director of Finance authority, more authority, than anyone in the Legislature since 1943. We started giving the Director of Finance--I'll have to check the code on it, I want to find out.

MR. DWIGHT: It does have financial authority over the State's financing. There is no question about that.

ASSEMBLYMAN THOMAS: That is what I am talking about. You hold the purse strings, you got everything licked as I see it.

MR. DWIGHT: Well, it isn't really that simple but you make a point and I stipulate to the point you are making.

CHAIRMAN CULLEN: If we might pursue Mr. Schabarum's question a little further in the Budget Act of 1970, Item 108, the Department of Finance pursuant thereto has been developing the Budget Data

System to be integrated into PPBS and what you have done is to assign three full time employees to create explicit definitions of output and output criteria capable of being applied to all programs.

In addition, you required six employees from six departments for a pilot project to spend one-third of their time to adopt these measurements to the budget in the fiscal year 1972, next year's budget. And you intend to continue this plan with six new departments for 1973 and 1974. So it would appear that four years after the Legislature put this language in the 1970 Budget, if all goes well, you will have twelve departments with the ability to perform rudimentary PPBS. Now from there are 106 or 105 departments in the State of California as, I believe, there are to be, I think, and it will probably be 25 years before you get to all of them. What do you say to that Mr. Dwight?

MR. DWIGHT: I think you have identified the third element of our presentation very accurately. Although I must say that I can't agree with your arithmetic. If you took, say the first twelve or eighteen departments, you would probably be covering 90% of what the State does, so although there are numerous small agencies there is a sphere of responsibility, authority and the consumption of tax dollars and the reliance of the public for service is very limited.

And with that general reaction to your statement I'd like to call on Mr. McDonald if it is alright. Mr. McDonald had the responsibility for the development of Budget Data Systems which you have referred to and he, in addition to that, now has the responsibility for developing these evaluation techniques which we have been alluding to and specifically as it relates to measures of output in the program budgeting approach and he has some comments that I think are

responses to your questions.

CHAIRMAN CULLEN: Let me ask you this first. I would like to address my remarks to the twelve departments to which you referred. Those twelve departments probably comprised 90% of something, I don't know, fiscal quantum or number of employees or what, and we have all been under the impression that Education and Social Welfare may well comprise over 50% of the fiscal expenses and employees of this State. So to be consistent with your statement that the first twelve comprise 98% then they must necessarily include the Departments of Education and the Department of Social Welfare, do they?

MR. DWIGHT: I think I said eighteen just to give myself a little more room.

CHAIRMAN CULLEN: Oh, did you give yourself eighteen? I thought you said 98.

MR. DWIGHT: No. I said eighteen departments and that being a three year bind and I could assume they included those departments.

CHAIRMAN CULLEN: Mr. McDonald.

APPEARANCE OF MATTHIAS F. McDONALD, SPECIAL ASSISTANT TO THE DIRECTOR, DEPARTMENT OF FINANCE.

MR. MATTHIAS McDONALD: Thank you, Mr. Chairman. I would like to refer first to the Budget Data System simply to put that in context.

In the spring of 1969, the Department of Finance proposed to the Legislature that it be given the resources to proceed on the design of a Budget Data System. The Budget Data System essentially is our attempt to automate the processes of budget development, appropriation of the Governor's budget document. I am not talking now about all of the wording in it but all of the fiscal information,

the numbers in the Governor's budget, and then essentially being able to track all of the actions of the Legislature as it considers the Governor's budget during the Spring of the year, be able to recall all the change, book types of changes, produce the general detail to the Committee on Conferences, pick out those changes and produce accurately and rapidly final information after the Governor has signed the Budget Act.

Now, the program to design and develop this system was begun in 1969-70, in the Spring of 1970 we produced a report to the Legislature outlining the essential design of the system. The Legislature approved our proceeding in 1970-71. We completed the design work, all of the programming has been completed. The programs are in test right now, and we will consider 1971-72 to be a full test year. That is we will be running the automated Budget Data System in full parallel in the manual operations during this fiscal year in order to prove its capabilities to do all the things that we must today do manually.

CHAIRMAN CULLEN: This present year or the forthcoming year?

MR. McDONALD: This present year, sir. Having done that we hope we will be in a position next year to declare the Budget Data System operational. Budget Data System has to oversimplify some very primary objectives. One is to provide information both more rapidly and more accurately than we currently can for fiscal decision making during the budget process. Another is to provide information for fiscal decision making during the legislative process and I should say that all of the capabilities of the Budget Data System are in effect turned over and made available to the Legislature during the legislative process that was part of the original

planning. The third major purpose is to be able to provide information for program performance evaluation.

We are essentially ready to do items one and two. The capability to provide information for program performance evaluation rests essentially on the development of measures of program output. And while the Budget Data System has been designed to accommodate these measures we have not yet developed those output measures; therefore, that capability is not in the system as it stands today. We are, however, currently mounting a task force effort to prepare these output measures. This process was described in a report that we made to the Joint Legislative Budget Committee on May 20th of this year. The Budget Committee had required that we give them a report indicating the way in which we were going to integrate the Budget Data System with all of the other purposes of the Program and Budgeting System in general, and that is the report here. Some of the figures that you quoted, I think, were taken from this report. I think some of you or your staff may have copies of it. I have extras if anyone is interested in having one. In any event--

CHAIRMAN CULLEN: May I ask you how many Legislators were present at that meeting.

MR. McDONALD: Joint Budget Committee?

MR. DWIGHT: I am not sure. This year I don't believe that the Joint Budget Committee held a meeting to see it. I believe they just received it.

CHAIRMAN CULLEN: Oh, you are not talking about a meeting with the Joint Budget Committee this year?

MR. DWIGHT: That was last year. We held a full meeting.

MR. McDONALD: This report was presented this year on May 20th.

In 1971 is when this report was submitted.

CHAIRMAN CULLEN: The reason I asked, I am a member of the Committee and I don't recall the meeting.

ASSEMBLYMAN MOBLEY: No, they must have just given it to them.

CHAIRMAN CULLEN: Mr. Mobley and I are both members.

MR. McDONALD: There were enough copies submitted to the Committee for each member. There were copies submitted to the office of the Legislative Analyst, copies submitted to the staff of the Senate Finance Committee and the Ways and Means Committee and we have additional copies for anybody who wants one.

ASSEMBLYMAN THOMAS: Did the Audit Committee get one?

MR. McDONALD: Yes, sir. All right. Essentially, our process for developing measures of output will take this form. Some of the numbers that have had to have staff to be applied to this process have been altered. Actually we have identified six people within the Department of Finance who are assigned full time and the assignments are just being made. They will begin full time work on this project immediately. Some of these people are from the Budget Division and some are from the Audit Division. We've included audit personnel very specifically for the reason that we want to be sure not only that output criteria or measures of output that we establish are sound means for judging program performance in terms of objectives but also that they are sound in terms of what is required can really be developed. Are they available, or would we simply be getting statistics that weren't valid because of the source. This group in the Department of Finance will of course be supplemented by the principal program budget analysts who are responsible for the departments that have been selected as the first ones for which

the measures will be developed.

We will have weekly meetings with the program budgeting managers, the Chief of the Budget Division, Mr. Beach, and the Chief of the Audits Division in order to review and apply their changes to the ways in which the task force is proceeding. This group will always be supplemented by assignment from the six departments and one commission that have been selected for our activity in the first year. Incidentally this report quoted five departments and one commission. One department has been added through their own particular interest, that's the office of the State Controller. So this Fall we will be attempting to develop measures of program performance for the office of the Controller, the Board of Equalization, the Department of Agriculture, the California Highway Patrol, the Department of Conservation, the Department of Public Health, and the Scholarship and Loan Commission.

We have tried to select at least one example from each major agency of Government and I should say that we have not selected those that are necessarily the most difficult to begin with, for example, the Department of Education, or the Department of Social Welfare. I think that measurement of program performance in those areas would in some cases be infinitely more difficult than in these areas. These are fairly representative, they are not going to be any snap by any means, they will give us good experience for going into the more difficult areas as we proceed. Our method of proceeding will be first to attempt to establish generalized criteria for evaluating programs and, I think, we should recognize that output measures are not themselves a total amount of program evaluation. Output measures are a tool to help us evaluate programs. But there

is going to be more in the evaluation of programs than only the measurement of output, but the measurement of output should help considerably.

We also will establish generalized criteria or conditions that the output indicators should satisfy. We then, in cooperation with the departments and with the principal program budget analysts who have the responsibility for those departments, will examine all of the program's statements and the definitions of objectives for the six departments and the commission. We know already that not all of the statements that have objectives lend themselves readily to measurement and we may, indeed, end up by making some significant changes in the statements of objectives and program statements of those departments in the budget that will be presented in January.

After we have reasonable program statements which lend themselves to measurement we will try to develop the specific output indicators that can be recorded accurately and which will be valid measures of achievement of those program objectives. And, of course, we will do this in conjunction with, and this will be agreed to, by the departments. We will then report necessary units of measure to the Legislature by including them in the Governor's Budget presentation in January of the coming year.

During the Spring of the year while the Legislature is considering the budget, we will proceed with developing whatever system is required to capture that output data and report it to the Department of Finance by means of the Budget Data System and the output measures will then become part of the Budget Data System and will be reportable to both the Executive and the Legislative Branch through the reporting means of Budget Data System.

We will, on approval of the budget, proceed then to collect those output measures all through fiscal 1972-73, for those six departments and the one commission that have been selected. In the following Fall, we will repeat the process again for six more departments, and in the following Spring present those in the Governor's Budget Document.

In June of 1973, we intend that there may be a major checkpoint in our process. We have, in the report that was presented to the Budget Committee, proposed that we proceed from that point at a rate of twelve departments per year so that would be six in the first year, six in the second year and then twelve per year from there on until we have covered all of what might be termed the major departments of State Government and we would guess that this process would take six to seven years at that rate.

In other words, at this major checkpoint in the budget of 1973, we intend to take a good look at what we've done and what we've learned and to see if indeed we can, from our experience, generalize well enough so that we can say to the departments, "Okay, here is a set of rules, regulations, guidelines. You can use these yourselves. We don't have to work with you at this level of detail any longer to establish some output criteria. You do it by these rules." We will check them over and perhaps we can move much more rapidly than twelve a year. We don't know yet and I don't think we will until we reach that major checkpoint, what our capability will be or with what speed we can proceed from that point on. In any event those are the plans in essence as they exist right now.

CHAIRMAN CULLEN: Mr. Schabarum.

ASSEMBLYMAN SCHABARUM: What was that major checkpoint again?

MR. McDONALD: In June of 1973.

ASSEMBLYMAN MOBLEY: Could I ask a question? You are talking about we. Who, in addition to the Department of Finance, has been working with you? Or are there others in the area such as the Legislative Analyst? Is anybody else working in that area or you do it just in the Department of Finance?

MR. McDONALD: The office of the Legislative Analyst has been kept completely informed of the progress of the Budget Data System. They have all of our reports, we have worked with them very closely. I am sure that they understand our plans, and as far as I know they are in concert with them.

ASSEMBLYMAN MOBLEY: Is that true, the same for the Controller's Office?

MR. McDONALD: Yes, indeed. The Controller's Office has been very much involved in the development of both the Budget Data System and, as I mentioned before, we had scheduled the Controller's Office to come into the program measurement part of this in our second year. They are enthusiastic about it. They want to be included in the first year and we have done that.

ASSEMBLYMAN MOBLEY: And the end result then is going to be a change from the existing operation where the Controller would just be checking after the fact. But are you going to change this system at all from what exists presently? In knowing just exactly where you stand at any one time during the year after the budget has been approved. Do you follow me?

MR. McDONALD: In relation to the fiscal information which will be contained in the Budget Data System, the Budget Data System is also going to record expenditures as we go through any fiscal

year and essentially on a month to month basis. Now, it won't be month to month the first year but that will be our goal.

ASSEMBLYMAN MOBLEY: But this is your ultimate goal?

MR. McDONALD: Yes, sir. And these expenditures will be reconciled against the Controller's records and, of course, there will be a year end reconciliation.

ASSEMBLYMAN MOBLEY: Really something.

MR. McDONALD: Each of the departments has been given responsibilities and, as Mr. Beach indicated, in some areas legislative intent might be ambiguous or general or vague or not at all, and so it is incumbent upon the Administration and the department heads as they each go down the programs to interpret what is the purpose in the charge given in that legislation.

ASSEMBLYMAN SCHABARUM: Now, in the development of your Budget Data System who is going to decide what, in fact, is the purpose of the particular program against which you are going to do these other things - your measurements, your cost analysis and so forth?

MR. McDONALD: The departments already have defined their programs and those are in the budget documents as they appear today. However, the definition of programs or the definition of objectives of the programs may in some cases lend themselves very well to quantification and measurement and in other cases this may be very difficult.

The decision about the measures to be applied against these programs will, in effect, initially be a decision generally by our task force in Finance and the departments themselves. The departments have representatives assigned to work with us and finally the director of that department. These will, of course, be presented to the

Legislature in the Budget Document and the legislative people will have the opportunity to review them.

If I may try to make one point clear about some of the difficulties of measurement. If, for example, you take a look at the basic program statement of the Board of Equalization, you find that the Board of Equalization has a number of objectives. Some of these have to do, of course, with the collection of revenues as authorized in the code. Others have to do with such things as assuring that there is equity in the collection of revenues, assuring that the general public is treated courteously and politely and so forth. These are all good objectives. How do you measure all of these things and how do you measure one against another? Some of these are going to be difficult questions and they are going to require a lot of rethinking when we get to the point of saying we want really to quantify things that we have never quantified before.

ASSEMBLYMAN SCHABARUM: Mr. Dwight has indicated that there are 12 departments in the two years designated in the Budget Data System Report. That in total by my measurement, either in dollars or personnel, doesn't add up to 98%. Maybe there are another six departments somewhere else that--

ASSEMBLYMAN SEELEY: He said 18.

ASSEMBLYMAN SCHABARUM: Yes, but I see only 12 departments listed to be reviewed and incorporated within this Budget Data Program for the time frame now through 1974.

MR. DWIGHT: I am afraid that you may have been confused by my remark. It was an off the top of the head figure, in response to Chairman Cullen's concern that it might take us 25 years to get to where we are going. As Mr. McDonald said, looking at the entire

gamut of State Government, taking a bit of actually seven agencies the first year. But it is actually going to be seven and next we are continuing on to twelve in the ensuing years. We expect to be able to take care of the whole thing well, in what seven years?

MR. McDONALD: Well by 1977 we essentially -- we would have all of State Government under measurement.

ASSEMBLYMAN SCHABARUM: If it were desirable and appropriate to move faster what would be required to accomplish that?

MR. McDONALD: I could not say, sir, that I think it is possible to move faster. I don't think that adding more people or seeking help from outside would really move us faster. Those are two alternatives, for example, I think this is going to take some very difficult and very thoughtful work in its initial phases and plainly from my own personal review of the literature available and the writings of the experts, I don't think that anyone is further ahead than we are on the problem of measurements.

ASSEMBLYMAN SCHABARUM: Isn't this going to happen right now? There is one Administration operating the Administrative Branch of Government which has taken the attitude in this program from the prior Administration and those who have come in during the last five years, and made them operative within a particular philosophical point of view. And from that now you are in the process of quantitating, for purposes of flushing out your Budget Data System, the objectives in the programs as the Administration sees them and from that will go on to goals and costs? Now, isn't it safe to assume another point of view that comes into the picture? All of those objectives or a concern of them will be modified to reflect to the point of view then in existence and, therefore, a different set of

goals will be established and, therefore, a different emphasis will reflect different costs. So where are we going to be?

MR. DWIGHT: Yes and no to your question. Those are tools which have the capacity of being evaluated annually which is the annual budget system. And the inputs, which I would assume represent the gamut of philosophic approaches, will, as they have been in the past, continue to operate in the future. But basically, this is giving us the tools to say what do dollars budgeted buy in terms of programs and what do those programs do for the public.

Now under one Administration, if the philosophic majority is here or -- you may conclude that you don't want to do something or, conversely, you may conclude that you want to do something else, this system provides that mechanism. So you don't throw away the progress that's been made because you have a change in the Governor's chair or anybody else's chair.

In other words, when the Administration changed in 1967 we didn't throw away the efforts that had gone past to that date, we built on them and I would assume that in the future it is mostly to the benefit of those in policy positions to get as much good data on the table as possible because it makes for better decisions. At least if we've got to disagree, we know what we have to disagree about. I guess that is a better way of getting it. I guess instead of all the other bureaus and all the other things that have been imposed that have gotten more attention in the past we'll be able to cut through that and we'll be able to agree what it is we are talking about and then make decisions depending on who's got the votes.

CHAIRMAN CULLEN: Mr. Billett.

MR. McDONALD: To revise a point if I may, when we have better means to actually measure what we are getting out of program performance, then I would anticipate there might be some changes in objectives within the same Administration. When it sees what results it is getting as the objectives change then our means of measuring our new objectives must be altered too. But you will have established a basic methodology, somebody is necessary for getting out these things.

CHAIRMAN CULLEN: Mr. Billett.

MR. BILLETT: Mr. McDonald, when you are talking about the Budget Data System, aren't you basically talking about a quantity measurement as opposed to a quality measurement?

MR. McDONALD: Yes, sir.

MR. BILLETT: Now, if you are talking about a quantity measurement then, in essence, you are talking about an automated accounting system, isn't that the essence of it?

MR. McDONALD: Well, it's more than an accounting system, but I won't argue that.

MR. BILLETT: Well, at the end of the year aren't you talking about a bank statement for a department for the fiscal year?

MR. McDONALD: Yes, sir.

MR. BILLETT: That's the product you are going to have. Now, how does that reconcile with the testimony Mr. Beach presented on PPBS? Do you tie the two together and at the end of the year if the Budget Data System is presenting the information which you are representing it presents, what does that tell you about policy evaluation? How does that assist in the PPBS? How does that assist in the Program Budgeting System?

CHAIRMAN CULLEN: For example, Mr. McDonald, it is a policy of this State to provide to the extent possible within the financial resources available, recreational facilities for the population. Now will your Budget Data System be able to tell the population density per square mile of public beach or the population density per square mile of lakes, public lakes?

MR. McDONALD: No, sir. No. What the Budget Data System will do is to be able to provide you with accurate historical information on past expenditures and the expenditures performance against the performance of actual expenditures, against planned expenditures in relation to the budgets for those years. It will present quicker and more accurate information for budgetary decisions in relation to coming years. Review estimates, and monetary positions as well as proposed benefits of the departments in relation to performance. Also the Budget Data System is going to carry the results of the kind of performance measurement that we are talking about. Those things which we can quantify and certainly we cannot quantify the quantitative or value judgement areas. We have never expected to be able to. There are going to be many areas of budgetary decisions which are always value judgement areas. The Budget Data System and its ability to provide information on performance and measurement, that is, how did the Department perform in relation to stated objectives quantified in this way here or their objectives? They didn't necessarily fail to meet them; they just met them; they surpassed them; and in doing this they spent less money; they spent what they said they needed to spend; or they need more money, so forth. This kind of information can be provided by the Budget Data System. The Budget Data System never will make value judgements.

MR. BILLETT: The point that I am concerned about is that Mr. Dwight's testimony and Mr. Beach's testimony were on the development and the history of programming and budgeting, the PPBS system.

MR. McDONALD: Right.

MR. BILLETT: And then it was indicated that the future would be testified to by you in your presentation.

MR. McDONALD: Yes.

MR. BILLETT: And I am concerned, at least in my own mind, that what you are talking about and the future you are talking about does not have any affect, one way or the other, in the progress that's being made with regard to the demands of the goals of obtaining programming budgeting, isn't that correct?

MR. McDONALD: No, sir. What I am talking about, and I would like to get the Budget Data System in proper context, that is not something that encompasses the programming and budgeting system. It is quite the other way around. The Budget Data System is merely a tool.

MR. BILLETT: That's right, it is one facet.

MR. McDONALD: Yes, sir. Within the total PPBS concept. What I was talking about specifically was the development of measures of program performance, measures of output and that this is the necessary next step in this entire process of the PPBS objectives. To identify programs, to define programs, and to organize your financing is a necessary first step. The thing that we have to follow up with now is more meaningful ways of evaluating how well did those programs do. How well did they do in achieving their goals and even, were they the right goals in the first place. Our development of means

of measuring program output is toward that necessary tool.

MR. BILLETT: But that brings us back to the point the Chairman and Mr. Schabarum had been making. Two years ago you had five full time persons in Finance working on PPBS. Today, two years later, those five have been reduced to two who are devoting one-quarter of their time and a Bureau Chief who is devoting one-half to one-third of his time. So the question still remains, how is PPBS going to be developed? What is the Department specifically doing to get into program budgeting?

MR. McDONALD: If I may address that, and Mr. Beach may wish to after me. The five people and one person that were referred to, if I understand correctly, refers to the group that was established and used for training purposes and mentioned earlier by both Mr. Dwight and Mr. Beach. The group which was responsible for the training of 750 executives and managers throughout State Government in the basic concepts of PABS, and then it was mentioned in previous testimony that a decision was made that PABS was no longer something special that was off to the side of the whole process, so to speak. PABS was the process and that every member of the budget division, for example, was expected to know and understand it and be able to advise the departments in its application.

So that the requirement for the special group in that special consideration simply disappeared because PABS became, in effect, a total way of life. The whole budget process was based on PABS and was the PABS process.

Now, I don't know the source of the other figures that you have and so I can't comment on their accuracy. All that I can say is that there are six people in Finance currently assigned as a full time

task force on this.

MR. BILLETT: To implement the Budget Data System?

MR. McDONALD: No, sir. Output measures. The Budget Data System may be the one on which you have--

MR. BILLETT: Are you saying there are six staff people today working on development of PABS full time?

MR. McDONALD: Those who are full time between now and January will be devoted to the development of output measures along with the departments.

MR. DWIGHT: Let's not confuse PABS and output measures and Budget Data System and so forth. Output measures are an element of program budgeting that haven't yet been developed. They haven't as yet been addressed and we are talking about addressing them. The Budget Data System is a tool. It is a dynamic tool of four systems. It is the budgetary tool to be used in the budgetary process by the Legislature and the Executive, so we are getting -- in other words, we can have a Budget Data System without program budgeting and you can have budgets without a Budget Data System. They are two separate things. Obviously, they work very well together, but this is not the same thing.

MR. BILLETT: But the testimony indicated that part of the difficulty is getting the departments to go along and cooperate with program budgeting. How many staff positions today in the Department of Finance are being used to get departments onto program budgeting? That's the basic question.

MR. DWIGHT: It is an unanswered question because basically we are talking about this as a full responsibility of the Budget Division in the Department of Finance because the entire resource

with the exception of the economic units and so forth are program responsive. In other words, they are to assign the basics to specific departments and it is the responsibility of principal program budget analysts to facilitate the development of PABS in a particular department if he is assigned to Mental Hygiene or if he is assigned to a group of departments in the service agencies which is his responsibility, that is a part of his responsibility in the budget development process. Now, what that is in full time evaluation, I wouldn't want to register a guess.

CHAIRMAN CULLEN: Let's defer that for a moment since we have been advised of the figures that we have stated. Now, if those figures are incorrect we'd like to know it. However, our information is that two years ago there were assigned five full time professionals and one clerk.

MR. DWIGHT: And we have explained what that was and that no longer exists.

CHAIRMAN CULLEN: All right. And today we are advised that there are two staff members devoting one-quarter of their time and one bureau chief devoting his--

MR. DWIGHT: We don't know the source of your input.

CHAIRMAN CULLEN: Well, the source is the Department of Finance. You are the Deputy Director and you don't know that those figures are correct and I am requesting that you advise me by letter what the correct figures are, because we are obviously moving forward on PABS and if we can't measure the performance and output in the Department of Finance, how are we going to measure it at any time? (See Appendix as well as pp. 4 and 9)

MR. DWIGHT: Well, I think that we can probably address our-

selves to answer your question as to the manpower equivalents being exerted in the development of the Budget Data System which I suspect is the number you are referring to--

CHAIRMAN CULLEN: Well, perhaps if you'd repeat it by letter, I'd feel better.

MR. DWIGHT: We will be happy to do that.

CHAIRMAN CULLEN: I don't want any guesstimates, but I will ask these two questions.

MR. BEACH: I would like to help clarify just once again, when you ask how many people are interested or working on PABS, as such. PABS, in its conceptual form, is now behind us. We are in the process now of refining the product which has been developed. This product is the responsibility of every member of the budget staff who carries a program or a research responsibility directly with departments. There is no one area which is directly responsible for a PABS presentation as such, because the departments have all converted. The difficulty, as Mr. Schabarum has pointed out, is that they are not all the same. And what we are doing in those that aren't as good as others - here we are taking the basic staff of the department, all of whom have had exposure and are responsible for the development of this concept. Therefore, there isn't a person, there isn't one unit which is responsible for the programming concept itself. The responsibility is of every individual at the professional level within the Budget Division.

CHAIRMAN CULLEN: Now, let me ask you this question, Mr. Beach. Is the Governor of the State of California responsible for updating and maintaining current the State Administrative Manual?

MR. BEACH: I would assume that all functions that fall into

the Executive Branch ultimately are the responsibility of the Governor.

CHAIRMAN CULLEN: He doesn't do that himself, does he?

MR. BEACH: No, he doesn't.

CHAIRMAN CULLEN: Is there anyone who works for him who is responsible for maintaining and keeping up to date the State Administrative Manual?

MR. BEACH: Yes.

CHAIRMAN CULLEN: Or is that divided among the 105,000 employees equally?

MR. BEACH: Mr. Cullen, there is a specific responsibility that is assigned for the State Administrative Manual in the Department of General Services. This is actually one individual whose part time assignment is to put into written form and distribute that information to all State agencies. The development of the detail that goes into it is scattered throughout all of the various agencies that have special parts within SAM.

CHAIRMAN CULLEN: Now, Sections 6800 through 6830.2 of the State Administrative Manual has to do specifically with PABS. Now, is there any gentleman or lady in the State Government that advises this part time worker in General Services of any changes?

MR. BEACH: There certainly is. The staff of the Budget Division carries this responsibility.

CHAIRMAN CULLEN: In the Department of Finance?

MR. BEACH: In the Department of Finance.

CHAIRMAN CULLEN: Who heads up that?

MR. BEACH: Well, it is my responsibility as Chief of the Division.

CHAIRMAN CULLEN: All right. Well then, you should be able to tell us whether or not Sections 6800 through 6830.2 of the State Administrative Manual is being carried out, should you not?

MR. BEACH: Yes, sir.

CHAIRMAN CULLEN: So, it is not scattered, I mean it is right on you?

MR. BEACH: Yes, sir.

CHAIRMAN CULLEN: All right. Let me ask this question, Mr. Dwight. The first and second year you selected the Department of Public Health. Now is that the present Department of Public Health or is that the new Department under the reorganization plans?

MR. DWIGHT: Present.

CHAIRMAN CULLEN: Present. What will happen on July 1st when the new Department becomes a reality.

MR. DWIGHT: I believe it just starts to phase in on July 1, if my recollection is correct.

CHAIRMAN CULLEN: Start to phase in. Now, do you have procedures where you are already preparing the companion departments that will come under the Department of Health into the program described by Mr. McDonald?

MR. DWIGHT: No. But I would assume that would present no problem inasmuch as the outputs of the presently constituted Department of Public Health will obviously be a part of -- they will be accepted or revoked as a part of the new Department of Health, so that they can walk across very easily and they just become a part of the outputs of a larger Department when the Department of Health is a reality.

CHAIRMAN CULLEN: Now, there is a reorganization plan

presently before the Legislature which proposes to change the agency name to Environment and Resource Agency, and proposes to create a Department of Environment. Do you have any procedures when you create a new Department like this for adding them to this list now from the beginning rather than picking them up in later years?

MR. DWIGHT: Well that would follow. That they are constituent elements in that particular proposal. Particularly the Water Quality, whatever it is, and the Resources Board.

CHAIRMAN CULLEN: Well you may find yourselves working with the--

MR. DWIGHT: Solid Waste, for example, out of Public Health may move over there.

CHAIRMAN CULLEN: This is true but you may find you're working with a constituent element whereas a new Department may not come onto the timetable for several years. I am just wondering whether it might not be more desirable to just consider that when a new Department is created through reorganization that this be added to the list so that they start off with a fresh outlook.

MR. DWIGHT: That would tend to make a lot of sense.

CHAIRMAN CULLEN: Sometimes, you know, these things aren't thought of. And my last question is, based upon a talk by Senator Humphrey - he appears concerned about the tendency of government only to plan a year ahead and that's only because the budget mandates that you have to do at least that amount of planning. And it's his observation - and I think his credentials are sound having come from Municipal Government and the Legislative and Executive Branches - that large cities are getting larger and we have already satisfied ourselves that the problems in large cities are

almost more than government can handle.

Does your Office of Planning and Research consider prospective sites for new population centers?

MR. DWIGHT: You mean the Office of Planning Research? I would have to beg ignorance on that question. That is not a part of the Department of Finance.

CHAIRMAN CULLEN: It occurs to me after digesting Senator Humphrey's message that perhaps here's a problem that's so obvious that we tend to ignore it. If we are going to have 30 million people in California, are we going to double the size of the City of Los Angeles? Are we going to double the size of the City of San Francisco? Or is an imaginative State Government and hopefully innovative State Legislature going to look into it before we pass on from the scene? Are there any other questions, Mr. Schabarum?

ASSEMBLYMAN SCHABARUM: I would like to know, in anticipation of next year's budget, can I expect any new wrinkles or do I write my annual letter again?

MR. BEACH: It wouldn't be fun if--

MR. DWIGHT: I think that you can certainly expect some new wrinkles for obvious reasons, but specifically related to today's discussion, I think you can expect to see some output measures on seven departments or six departments and a Commission that you haven't seen before.

ASSEMBLYMAN SCHABARUM: Embodied in the budget document that will be presented?

MR. DWIGHT: Yes.

ASSEMBLYMAN SCHABARUM: Now, at this point in time, I guess you are in the process of having your annual debates between the Depart-

ment of Finance and the department heads with an eye toward starting to glue the budget together in the next couple of months. Are you up ahead enough at least in those six or seven departments so that the explanation of the objectives already heretofore in the budget document have been clarified at least to your satisfaction? That there will be a presentation of the results, where possible?

MR. DWIGHT: The output measures will be in addition to the traditional input. In other words, the budget document heretofore has been unprinted in relation to programs and the programs have been articulated on a veritable --in other words, some departments are skilled in setting forth in a reasonably respectable way what their programs are all about, where others are less skilled.

Now, this is another piece of input which you will have which will say, these programs produce these kinds of results, measurable results. And that's going to be something that we haven't addressed in this way before. Obviously, some kinds of programs have obvious results where the service to the public is measured in terms of just that, service to the public.

MR. BEACH: I wonder if I might clarify that just a little bit.

CHAIRMAN CULLEN: Mr. Beach.

MR. BEACH: I think you will have at the time you are considering the budget those outputs and evaluation tools which we have developed for your consideration at the budget presentation. I have some hesitancy in stating to the Committee that they will be included in the printed document which is given to you on the 15th of January with the Constitution, because of the sheer time elements involved. And if not exactly a correction but maybe a slight modification, Mr. Dwight stated it will be part of the budget presen-

tation, but not within that initial printed document.

ASSEMBLYMAN SCHABARUM: Well, let me ask you this. Using an example, which according to this will not be forthcoming this year, of the WIN Program in Rehabilitation. Their budget has been sort of interesting the last couple of years. For example, you get 119,000 clients represented as being handled through WIN and by the bottom line you have got 5,000 that ended up getting a job. And beyond that it is awfully tough to determine why that many in the first place. But more particularly how come the tremendous fall off which brings up the question of what the whole program is about which is to get people trained to become employed on the job. Now, is that kind of question going to hopefully be answered in the--

MR. BEACH: Is this an evaluation?

ASSEMBLYMAN SCHABARUM: Well, for the benefit of program analysis that will be forthcoming from the Rehabilitation Department when that is put forward.

MR. BEACH: Well, Mr. Schabarum, I might take the first crack at it. This evaluation development is part of the budgeting process. Again it's not separate and it is not something that is new. It is something that those in this professional field have been trying to develop for a good many years. It is something which those of you who have to vote yes or no on an issue have wanted for a number of years.

I suppose I am a little old, but I have seen the kind of time that it takes to develop good useable information in all segments. I would caution that the ability of staff is always going to be somewhat limited in its attempt to solidify in every case all of the types of evaluations for each department which would be the

height of utopia. It is my personal feeling that we are going to have to take some middle ground and be satisfied initially with the best that can be presented that is useable and the area that lends itself more readily to this type of information.

Our goal is there and we are going to strive for it. But to assure you that even in these six departments we will be able to give you evaluative tools for every function within the Department is not necessarily something that I think we can give you as a fact at this stage.

MR. DWIGHT: And just to amplify to that point. You mentioned a number of persons placed in jobs under the WIN Program. That may not be an appropriate measure of output. I had said the other, that it probably is, but we might want to go further than that and see. Maybe the output is how many people were placed in jobs and stayed for six months or a year and this sort of thing. So the first thing is to identify what are those approximate measures of output and in this instance, it's probably going to be a little easier than it is in say programs in service agencies, and this sort of thing. How do you measure those kinds of outputs? Some of them are going to be quite difficult to establish approximate measures of output.

ASSEMBLYMAN SCHABARUM: But it seems to me that year in and year out the same questions get raised about the same programs in almost every department. I can probably go through and recall a particular line of questioning that relates to each of these seven departments that you are now involved in. And I guess the question is whether or not in anticipation of that one, are you pursuing a more interested department response or finding that has been developed heretofore and or shared with or developed in conjunction

with the Legislative Analyst. The information that would be responsive to that kind of inquiry?

MR. DWIGHT: We are trying to custom build a result for you so that it is responsive to the collective inquiries of the Legislature and Executive in the past. In other words, that is a logical way to start and the effort to limit the number of departments that we are looking at is an attempt to apply a scarcer source. The capacity to build with this sort of thing in relationship to the department and to build a result that we can live with as opposed to going through the process and getting back to the idea will the output measures in this department be good and their effort in the other department-- we are going to try to buy some insurance, get that possibility by exploring Finance sources to help the department get this kind of results.

CHAIRMAN CULLEN: In conclusion, let me put this question to you, Mr. Dwight, that you refer to your planned program here for the next several years as a pilot project indicator. Now, should it develop that this is proving very beneficial to a department in one agency are you encouraging the agency heads to keep abreast of such developments with a view toward alerting the other departments within that agency and saying, "Run over and check Rehabilitation, they are doing great things with their budget provision. I wish the other departments would take a look at that." Are you encouraging this or is the Governor encouraging that?

MR. DWIGHT: Very definitely. We made a conscientious effort to cut across a separative concept that we were putting topping on all the big pieces so that we would have indicators in a particular area or cluster of departmental activities that would be more represen-

tative to that. As I believe Mr. McDonald brought out in his presentation, in the event that we find we are making progress at a rate faster than what we had expected and in the event that the criteria that we are able to develop as we move down this path so that say a department that is not mentioned here can use these criteria and start to work on their own without this custom building that I referred to it is conceivable that we could move a lot faster.

CHAIRMAN CULLEN: So you are encouraging open publicity in the departmental newspaper and exchange of ideas, right?

MR. DWIGHT: Well, I am not sure that it goes to public relations, but certainly.

CHAIRMAN CULLEN: Referring to this in occasional memorandum or notice that goes up on the bulletin boards, does anyone besides you and the Joint Legislative Audit or Budget Committee know about this already?

MR. DWIGHT: We are using a different device. Public relations is not the bag of the Department of Finance. But we do work through line organization to reach the same conclusion just different tools I suspect.

CHAIRMAN CULLEN: Well, thank you very much. It's been very informative. We will be interested in your response to the questions regarding the man hours that are assigned to the PABS Program within the Department of Finance.

DEPARTMENT OF FINANCE

SACRAMENTO



OFFICE OF THE DIRECTOR

September 30, 1971

Honorable Mike Cullen, Chairman
Committee on Efficiency and Cost Control
State Capitol, Room 5144
Sacramento, California 95814

Dear Mike:

I appreciated the opportunity to testify before your Committee September 14, 1971. In response to your question at the committee hearing relating to staff currently working on PABS, we have endeavored to determine where the figures you quoted came from but, to date, to no avail. As was stated in our presentation, no special section of the Budget Division has been specifically devoted to the Programming and Budgeting System since the Division was reorganized in October 1969. The development and enhancement of the Programming and Budgeting System has been part of the responsibility of every analyst. Each of our analysts has worked to develop program budgeting in cooperation with line management personnel in the department to which the analyst is assigned.

I am sure you can appreciate that the system has undergone constant modification. The sections of State Administrative Manual related to budgeting have been used as the vehicle to communicate these modifications to all departments. We have provided your staff with copies of the latest issue of those sections of the State Administrative Manual which contain our most recent revisions. This year the changes were somewhat more substantial than last year's revisions. The principal changes are:

1. Elimination of the multi-year program requirement. This change is based primarily on the premise that projections for more than one year past the budget year do not appear to be realistic.
2. Introduction of the program change proposal concept.
3. Incorporation of the program maintenance proposal.

Honorable Mike Cullen

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September 30, 1971

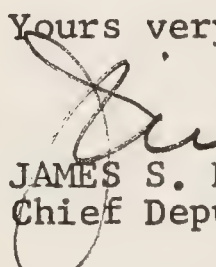
4. The statement of the start of a four-year cycle of program evaluation by the Department of Finance staff in cooperation with agency personnel.

As we stated in the Committee, we have recently assigned specific staff to the development of program measurement and evaluation techniques, a specific and hopefully highly productive aspect of PABS. Matt McDonald plus five staff members have been assigned the project of development of criteria and the definition of outputs in certain areas. The concept of outputs is one of the quantitative measurements of program effectiveness. We feel that a refinement of the output process and its introduction into the budget format in the 1973-74 budget for seven departments will provide us with a rational view of program effectiveness. Our effort in this program is described in the blue-covered report we have made available to your Committee and its staff. This report, which Mr. McDonald discussed at the hearing, describes the integration of the Budget Data System into the Programming and Budgeting System of the State of California.

We welcome any further questions you, your committee or consultant staff may have about the development of the PAB system. If you have any further questions about developments in the output project, Mr. McDonald would be happy to provide you with the data directly on your request.

If I can be of any further assistance, please do not hesitate to call on me.

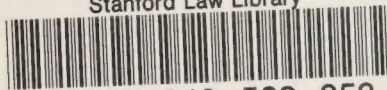
Yours very truly,



JAMES S. DWIGHT, JR.
Chief Deputy Director

JSD:j

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